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TRANSPORTATION DIVISION

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SECTION I SUMMARY OF TRENDS AND DEVELOPMENTS

The Chinese Nationalists are apparently determined to discourage as long as possible by threats of military action all foreign trade into Communist ports, irrespective of their actual ability or even their intentions of putting such threats into effect. This determination has been evidenced by several recent Nationalist actions. (Item No. 1, A)

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The reported sale of the Polish passenger vessel JAGIELLO to the Soviet Union for registry in Vladivostok is an additional indication of Polish subservience to the USSR, particularly in view of the Polish Ministry of Navigation's announcement last year that the Polish merchant fleet will be increased through construction in both Polish and foreign shipyards from 165,000 gross tons in 1943 to more than double that tonnage by 1953. (Item No. 3, A)

Egyptian customs authorities have revealed that Egypt will no longer prevent vessels from operating to and from Israel through Egyptian ports, provided no munitions (including fuel) are carried. (Item No. 4, B)

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The Tito-Cominform dog fight has brusquely interrupted the supposed tranquil unanimity of the Danube Commission. Having ejected de facto all Western influence in Danube control matters by setting up a new regime at the Belgrade Conference in 1943, the USSR now finds one of its co-conspirators in violent opposition to the current Soviet domination of Danube matters. (Item No. 5, B)

Highway and rail projects favorable to the defense of Alaska are rapidly taking shape in British Columbia. (Item No. 6, C)

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SECTION II CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The Chinese Nationalists are apparently determined to discourage as long as possible by threats of military action all foreign trade into Communist ports, irrespective of their actual ability or even their intentions of putting such threats into effect. This determination has been evidenced by several recent Nationalist actions.

With respect to the Nationalist shelling of the US-flag vessel FLYING CLOUD, a detailed report is now available, following the vessel's arrival in Pusan, Korea. The report is based upon statements made to the US Vice Consul at that port by the ship's Master and two of its passengers.

On its voyage into Shanghai, according to this report, the Isbrandtsen Line cargo vessel was challenged by a Chinese Navy patrol ship. The US Master, however, observing that the patrol ship's guns were covered, ignored the challenge and steamed into Shanghai. The outbound FLYING CLOUD was halted on 15 November by a blank shell fired across its bow. The Master of the US vessel requested permission of the Chinese boarding party to proceed on the grounds that emergency stores were being carried for a Norwegian vessel technically in distress. The boarding party was informed, however, that the FLYING CLOUD would sail with or without such permission, which was later refused with the suggestion that the US ship return to Shanghai and discharge its cargo. When the Isbrandtsen liner actually got under way, it came under fire from two Chinese vessels. There was no serious damage, however, and the Chinese ships did not attempt to follow the FLYING CLOUD.

The attitude of the two Chinese officers in the boarding party led the US Master and his interpreter to conclude that the FLYING CLOUD would have been allowed to proceed without interference had not two British vessels detained by the Chinese also been present. (These ships were later released without serious incident.) When the Chinese did make a show of force with respect to the US vessel, moreover, it was apparent from the inaccuracy of their fire at short range and from their use of small calibre weapons that there was no intention either seriously to damage the vessel or to injure its personnel.

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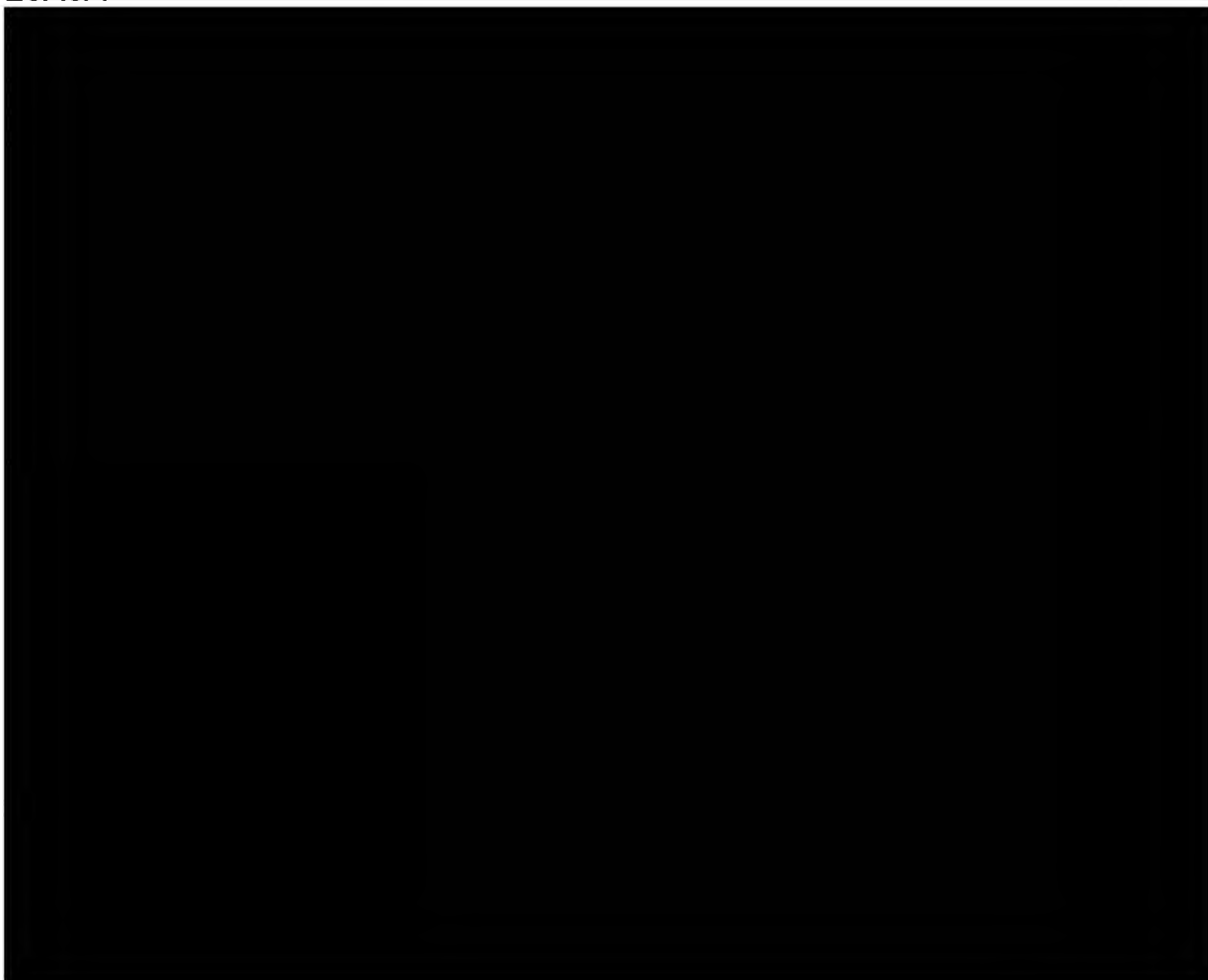
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These circumstances seem to substantiate previous indications from the Nationalist Foreign Office that the "blockade" was to be enforced principally against British shipping. A Nationalist official has recently stated, for example, that the Chinese warning with respect to the intended bombing of foreign shipping in Chinese territorial waters and in the Formosan Straits was directed against British shipping and that no such US shipping would be subject to air attack.

Meanwhile, the Nationalists have extended their port closure orders to include South China ports recently taken by the Communists. The new order closes temporarily all Chinese ports from 24 degrees, 21 minutes North latitude to 21 degrees North, specifically including the ports of Amoy, Swatow, Canton, Kungpei and Chiangmen. (Secret)

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3. The reported sale of the Polish passenger vessel Jariello to the Soviet Union for registry in Vladivostok is an additional indication of Polish subservience to the USSR. The transfer is being made despite efforts of the vessel's owners, Gdynia-America Line, to expand their service into the Indian Ocean, and the sale, moreover, is hardly consonant with the Polish Ministry of Navigation's announcement last year that the Polish merchant fleet will be increased through construction in both Polish and foreign shipyards from 165,000 gross tons in 1943 to more than double that tonnage by 1953.

The Jagiello, built in Hamburg in 1939, has accommodations for 637 passengers and a crew of 130. It has a gross tonnage of 6,140, and a speed of 15 knots. Prior to the reported sale it operated between Italian ports and South America. It is rumored without confirmation that the 11,000 gross ton Polish diesel ship Sobieski, built at Newcastle in 1939, has also been sold to the USSR. This vessel has a capacity of 733 passengers, carries a crew of 177, develops 17 knots, and contains about 43,000 cubic feet of refrigerated space and over 600,000 cubic feet of grain and general cargo capacity.

If these were old ships, their sale might not be prejudicial to Poland's policy of expanding its merchant fleet. However, since they are relatively new, it is apparent that the Polish merchant marine, like other facets of Poland's economy, is being administered primarily for the best interests of the Soviet Union. (Confidential)

4. According to shipping circles in Cairo, Egyptian customs authorities have revealed that Egypt will no longer prevent vessels from operating to and from Israel through Egyptian ports, provided no munitions (including fuel) are carried. In view of possible domestic and Arab repercussions, however, the Egyptian Government will make no official announcement of the changed policy. (Confidential)

5. The Tito-Cominform dog fight has brusquely interrupted the supposed tranquil unanimity of the Danube Commission. Having ejected de facto all Western influence in Danube control matters by setting up a new regime at the Belgrade Conference in 1943, the USSR now finds one of its co-conspirators in violent opposition to the current Soviet domination of Danube matters.

All signatories to the new Danube regime, including Yugoslavia, were invited to the Commission's first meeting, at Galatz, which completed its work on 17 November. The Yugoslav attitude at the meeting has been reflected in a vitriolic press coverage. According to the

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Yugoslav version, the USSR is now trying to use the Danube Commission as an instrument to hamper and violate the sovereignty of the Danube states, just as the non-Danubian imperialistic states have done in the past. The Yugoslav delegation, however, consistently opposed the Soviet efforts at Galatz to "transform the Commission" into an instrument of its "hegemonic policy".

Meanwhile, the US, UK and France have delivered notes to the six Belgrade signatories, asserting that the Belgrade Convention has no valid international effect and that the 1921 Danube Statute is still in force. (Secret)

6. Highway and rail projects favorable to the defense of Alaska are rapidly taking shape in British Columbia. The new John Hart Highway, scheduled for completion in 1950, will connect Prince George, terminus of the Caribou Highway from Vancouver, with Dawson Creek on the Alaska Highway. When completed, the fifty-mile highway will save two full days for trucks operating between Seattle and interior Alaskan points by eliminating the extra 500 miles on the circuitous route via Edmonton, Alberta. With 30-foot gravel construction throughout, the project is designed to accommodate heavy trucking at moderate speeds. It is not yet certain that US truckers will be able to use the highway without trans-shipments because the provincially-owned Pacific Great Eastern Railway will hold an exclusive franchise on the highway for all freight traffic and passenger traffic by bus.

The completion of the John Hart Highway should facilitate the construction of a rail link envisaged by US Public Law 391 (26 October 1949), authorizing a location survey for a line connecting the US and Canadian railway systems with the existing Alaskan network. The line would run from Prince George to Fairbanks. The recent US law further authorizes the preparation of engineering plans, as well as proposals for financing the line's construction and maintenance. (Confidential)

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